

Message Text

CONFIDENTIAL

PAGE 01 TEHRAN 03753 202338Z
ACTION NEA-10

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C O N F I D E N T I A L TEHRAN 3753

E.O. 11652: GDS
TAGS: ENRG IR
SUBJ: NATURAL GAS: IGAT-II DEVELOPMENTS

REF: 77 TEHRAN 11196

1. BEGIN UNCLASSIFIED. ON APRIL 12 IRANIAN MIN OF ECONOMIC AFFAIRS AND FINANCE YEGANEH AND VISITING CHAIRMAN OF THE FOREIGN TRADE RELATIONS COMMITTEE OF THE SOVIET COUNCIL OF MINISTERS SKACHKOV SIGNED AN AGREEMENT FOR THE CONSTRUCTION BY THE USSR OF THE FOURTH (NORTHERN) SECTION OF THE SECOND IRANIAN GAS TRUNK-LINE (IGAT-II). ADDRESSEES WILL RECALL THAT CONTRACTS FOR THE THREE SOUTHERN SECTIONS OF IGAT-II WERE AWARDED IN MID DECEMBER AFTER A PROTRACTED AND FIERCELY CONTESTED ROUND OF COMPETITIVE BIDDING. (REFTEL. HOWEVER, SECTION FOUR HAD BEEN RESERVED FOR THE USSR, AND THE SOVIETS WERE THE ONLY BIDDERS. END UNCLASSIFIED.

2. BEGIN CONFIDENTIAL. A HIGH LEVEL EMB CONTACT AT THE NATINAL IRANIAN GAS COMPANY (NIGC) EXPRESSED RELATIVE SATISFACTION OVER THE PRICE AND TERMS AGREED TO WITH THE USSR BUT HE READILY ADMITTED THAT IRAN WILL PAY THE SOVIETS MORE THAN WOULD HAVE BEEN THE CASE HAD NIGC ALSO USED COMPETITIVE BIDDING ON SECTION FOUR.
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PAGE 02 TEHRAN 03753 202338Z

ACCORDING TO NIGC SOURCE, THE AGREEMENT SIGNED APRIL 12 COMMITS IRAN TO PAY 212 MILLION DOLLARS FOR THE CONSTRUCTIONS OF SECTION FOUR, WITH 48 PERCENT TO BE PAID IN HARD CURRENCY (TO COVER THE SOVIET'S FONEX COSTS) AND THE REMAINDER TO BE PAID FOR WITH NATURAL GAS.

3. THE ORIGINAL SOVIET BID WAS, ACCORDING TO SEVERAL

EMB CONTACTS, 280 MILLION DOLLARS WHICH WAS JUST ABOUT TWICE THE AVERAGE PRICE, ON A PER KILOMETER BASIS, QUOTED BY THE LOW BIDDERS ON THE THREE SOUTHERN SECTIONS OF IGAT-II. HOWEVER, WE UNDERSTAND THAT THE AVERAGE KILOMETER COSTS OF BUILDING SECTION FOUR WILL BE SOME WHAT HIGHER THAN THE AVERAGE OF THE THREE SOUTHERN SECTIONS BECAUSE OF THE DIFFERENCES IN TERRAIN.

4. OUR NIGC SOURCE SAID THAT THE FINAL PRICE OF 212 MILLION DOLLARS WAS PROBABLY 15-20 PERCENT TOO HIGH. HOWEVER, HE SUGGESTED THAT NIGC AND THE GOI HAD DONE ABOUT AS WELL AS COULD BE EXPECTED GIVEN A. THE OBVIOUS POLITICAL CONSIDERATIONS, B. THE FACT THAT THE COSTS OF BUILDING THE THREE SOUTHERN SECTIONS, AS REFLECTED IN THE BIDS SUBMITTED, WERE NOT FULLY COMPARABLE WITH SECTION FOUR, AND C. THE NECESSITY OF AWARDED THE CONTRACT QUICKLY SO AS TO MEET THE COMMITMENT TO BEGIN DELIVERIES OF GAS IN 1981. END
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